

BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
) MUR 5721
 Lockheed Martin Employees' PAC and)
 Stephen E. Chaudet, in his official capacity)
 as Treasurer)

GENERAL COUNSEL'S REPORT # 2

I. ACTIONS RECOMMENDED: Accept the attached conciliation agreement with the
 Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer

II. BACKGROUND

This matter arose from an audit of the Lockheed Martin Employees' PAC ("LMEPAC" or "Committee") and a referral from the Reports Analysis Division ("RAD") stemming from LMEPAC's failure to disclose all financial activities. The audit of the Committee had revealed that the Committee's former treasurer had embezzled \$170,000 from it, and that the Committee's apparent lack of internal controls on its finances may have made the embezzlement possible.

On March 21, 2006, the Commission found reason to believe that: 1) LMEPAC and Stephen E. Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5); 434(b)(4), (6)(B)(v) and 11 C.F.R. § 104.3(b) by failing to accurately account for and report certain disbursements; 2) LMEPAC and Stephen Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. § 434(b)(2), (3) and 11 C.F.R. § 104.3(a) by failing to disclose certain receipts

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LMEPAC officials and

its Treasurer, Steven Chaudet, were cooperative by providing numerous sworn affidavits and voluntarily meeting with us. As a result, we discovered that the failure to disclose receipts as well as the inaccurate disclosure of disbursements resulted from the embezzlement. In addition, we learned that Chaudet inquired about the status of the outsourcing some PAC functions on a number of occasions, but Phelps engaged in efforts to conceal his scheme from LMEPAC officials. Nevertheless, the outsourcing process lasted more than 2 years and was never completed, and the Committee did not internally segregate Phelps' responsibilities either. Chaudet has informally acknowledged that he became suspicious after one year. After discovering the embezzlement, LMEPAC ultimately segregated certain financial responsibilities by assigning bank reconciliation to its corporate office in Bethesda, Maryland and issuing checks from its Florida office.

III. CONCILIATION AND CIVIL PENALTY

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MUR 5721
General Counsel's Report #2

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V. RECOMMENDATIONS


1. Accept the attached conciliation agreement with the Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer;
- 2.
3. Close the file in MUR 5721; and
4. Approve the appropriate letter.


Lawrence H. Norton
General Counsel

Lawrence L. Calvert Jr.
Deputy Associate General Counsel for Enforcement

DATE: 7/12/06

BY:


Ann Marie Terzaken
Assistant General Counsel


Jin Lee
Attorney

Attachment:

1. Conciliation Agreement with Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer.